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Internal Audit of WFP Operations in Ethiopia

Office of the Inspector General
Internal Audit Report AR/23/07



World Food
Programme

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I. Executive summary

WFP Ethiopia Country Office

1. As part of its annual workplan, the Office of the Internal Audit conducted an audit of WFP operations in Ethiopia that focused on beneficiary management, management of cooperating partners, monitoring, donor relationship management, supply chain, service provision, and humanitarian access. The audit covered the period from 1 June 2021 to 31 August 2022.
2. Through five strategic outcomes, WFP in Ethiopia focuses on two goals in its Country Strategic Plan 2020–2025: continuity and strengthened focus in meeting the emergency, nutrition and resilience needs of targeted populations; and support for government policies, institutions and operational systems that deliver towards hunger reduction goals and targets. The Government of Ethiopia leads the humanitarian response at federal, regional and sub-regional levels.
3. The latest revised budget (in the audit period) for the country strategic plan took place in May 2022 and increased to USD 5.0 billion. Over the audit period, WFP expenses amounted to USD 923.1 million, and the country office reached 9.8 million beneficiaries. The audit focused on the implementation of activities 1, 2, 9 and 11 under strategic outcome 1 – *Shock-affected populations in targeted areas and refugees in camps are able to meet their basic food and nutrition needs throughout the year*, and strategic outcome 5 – *Government, humanitarian and development partners in Ethiopia have access to and benefit from effective and cost-efficient logistics services*. The activities in scope accounted for 79 percent of the total expenses during the audit period.
4. The audit was subject to a scope limitation as the Tigray region was excluded, due to the lack of access and ongoing conflict at the time of audit planning and fieldwork. Of the 515,000 metric tons distributed in the audit period in the whole country, 93,000 metric tons (18 percent) were for Tigray and 422,000 metric tons (82 percent) for the other regions in Ethiopia.
5. Based on the beneficiary caseload, materiality of food inventory and commodities dispatched as well as fleet size, the audit team focused on the main office in Addis Ababa and visited three field offices in: (i) Adama, the logistics hub of the country office (where 44 percent of food commodities inventory were stored); (ii) Jijiga, the area office for the Somali region (the largest in the country, where 39 percent of total commodities were dispatched); and (iii) Semera, a transit point between Djibouti and Ethiopia and one of the corridors to Tigray (where 40 percent of the WFP truck fleet was located).

Events subsequent to audit fieldwork

6. Allegations of significant post-delivery food aid diversion in the Tigray were made in March 2023, and later in other regions of Ethiopia, further to significant aid sale by the refugee community and potential fraudulent food diversion schemes in all regions.
7. In May 2023, WFP and the United States Agency for International Development suspended food distributions in the Tigray region. A WFP management-led review launched subsequently concluded that systemic gaps occurred in the implementation of WFP's assurance measures and controls in Ethiopia. In June 2023, WFP announced a country-wide pause of general food distributions while assurance measures and controls are being enhanced.
8. At the time of this audit reporting, WFP was implementing the Ethiopia Assurance Project, which aims to target the people most in need of assistance and put in place sufficient assurance measures and controls to ensure that only the intended beneficiaries receive WFP assistance. To achieve this, WFP is updating its operations throughout the country using a phased approach prioritizing Tigray and subsequently expanding to other regions. The first phase of the project will run from June to September 2023 with a dedicated project team.

Audit conclusions and key results

9. The audit findings in this report apply to the audit period,¹ areas and geography in scope.
10. Pertaining to the period in scope, based on the results of the audit and in the context of the scope limitation, the Office of Internal Audit reached an overall conclusion of **major improvement needed**. The assessed governance arrangements, risk management and controls were generally established and functioning but needed major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area.
11. The multiplication of crises – pandemic, conflict and economic – slowed WFP’s efforts in expanding resilience activities as foreseen in the country strategic plan and led to refocus efforts on the saving lives agenda. The country office is well capacitated with experienced staff and received management oversight from the Regional Bureau for Eastern Africa in logistics, monitoring, budget management, finance and administration.
12. In view of increased humanitarian needs and weaknesses of the country logistics sector, the country office invested in the capacity of its supply chain. The country office leveraged its supply chain presence and experience to become WFP’s largest provider of logistics services to the Government and other actors and contributed to the definition of WFP corporate standards.
13. In the audit period, the Government of Ethiopia was the most important humanitarian actor and development investor in the country, defining and leading all policy processes, institutional structures, and organizational arrangements at federal, regional and sub-regional levels.
14. The programme design and operational set-up in Ethiopia continued to carry significant residual operational risks given that beneficiary targeting, registration and identity verification were outside WFP’s perimeter of control. As a result, WFP was unable to provide assurance on whether needs were accurate and whether it was assisting the most vulnerable. As the country office received paper-based aggregate or total numbers of beneficiaries to serve in specific locations, and in the absence of corporate guidance on identity management for food distribution in the audit period, it was unable to verify beneficiary identities at the household or individual level. Structural changes to programme and set-up need to be introduced, in coordination with the Government, to strengthen accountability mechanisms and manage process vulnerabilities to fraud risks including food diversion.
15. Distribution rounds planning, warehousing and distributions to beneficiaries are also led by the government. The insufficient segregation of duties between these processes resulted in increased vulnerabilities, including fraud risks, in the final distribution (‘last mile’) to beneficiaries. Because of the longstanding capacity and performance issues of regional government partners at distribution points and poor connectivity in the field, WFP’s Last Mile application was not systematically used.
16. In 2022, for the locations in scope (i.e., excluding Tigray),² there were 2,735 active sites out of a total number of 8,281 sites. The actual monitoring coverage of active sites through internal and third-party monitors was 34 percent. Third-party monitoring established since 2021 in the Somali region achieved a monitoring coverage of 86 percent of all relief and targeted supplemental feeding activities. Nonetheless, there was insufficient independent monitoring coverage in other regions covered by the audit scope. For example, in Afar, internal staff levels were not enough, and third-party monitors were not yet deployed in the audit period. In addition, while there was a system for recording and tracking monitoring issues and standard operating procedures, there was an opportunity to further strengthen escalation mechanisms for high priority monitoring issues and trigger prompt action on food losses, misappropriation, and diversion cases across the country.

¹ When indicating ‘2022’ in the report, this refers to the period until the audit field mission (November 2022).

² In Tigray, in 2022, of the total of 759 sites, 158 were active during the audit period.

17. Although the country office expanded its fleet of trucks to deliver food to regions where commercial transporters were unavailable, it did not have adequate resources and robust processes for effective fleet management. This resulted in manual and incomplete documentation, delayed data entry, commodity accounting issues, and errors. As such, the country office was unable to analyze the performance of its fleet and ensure its optimal utilization.

18. Other issues identified in the audit included unrealistic assumptions underlying the country portfolio budget, insufficient review of supply chain budget and costs, and unplanned procurement and contracts adjustments. As a result of gaps in corporate guidance, systems and tools, there were also issues identified with the budgeting and management of risks for supply chain provision.

19. Further gaps in corporate frameworks led to unmitigated risks at country office level. At the time of the audit reporting phase, WFP's framework for working with governments was under finalization and there was no corporate mechanism or guidance for the follow-up and management of losses at government partner locations.

20. In addition, issues identified in negotiating contribution agreements, monitoring donor conditions and producing credible donor reports on resilience activities were attributable to limitations in existing WFP systems.

Actions agreed

21. The audit report contains four high-priority and five medium-priority observations. Management has agreed to address the reported observations and to implement the agreed actions by their respective due dates.

Thank you!

22. The Office of Internal Audit would like to thank managers and staff for their assistance and cooperation during the audit.

II. Country context and audit scope

Ethiopia

23. Ethiopia is a vast land-locked country of 1.1 million km² with a population of 120.3 million, the second largest in Africa. The country has registered strong social and economic development in recent years, leading to important progress towards Sustainable Development Goal 2. In 2021, conflict across northern Ethiopia reversed progress made in achieving food security in many parts of the country and caused a humanitarian crisis. This – together with climate shocks that include drought and floods, the pandemic, desert locusts and socio-economic downturn – led to deteriorating levels of food and nutrition security across the country.

24. As of November 2022, 22.6 million people needed food assistance.³ In 2022, food assistance needs peaked at their highest levels since 2016, with widespread crisis and emergency outcomes across much of the country.⁴ Indicators of acute malnutrition in children were high in southern Ethiopia, Amhara, Afar, and Tigray, with rates above 20 percent⁵ in all regions.

WFP operations in Ethiopia

25. The country office launched the Country Strategic Plan (CSP) 2020–2025 in July 2020 with a budget of USD 2.6 billion. It subsequently increased the budget to USD 5.0 billion through five budget revisions. WFP aims to continue to address the immediate short-term needs of refugees, internally displaced persons, and other food-insecure and undernourished people, and plans for a gradual expansion and intensification of resilience and livelihood diversification initiatives at the humanitarian–development–peace nexus.

26. The conflict in Tigray started in November 2020. In March 2021, WFP activated an internal emergency response for the Ethiopia Tigray Operation, which was downgraded to a corporate attention emergency in March 2022.

27. Between June 2021 and August 2022, WFP reached 9.8 million vulnerable people by delivering 515,000 metric tons of food worth USD 402.8 million, and cash-based transfers worth USD 38.8 million. Budget for service provision activities increased from USD 32.6 million in the original CSP to USD 1.1 billion in the last budget revision.

28. The Government of Ethiopia at the federal level leads the humanitarian response and coordinates at the field level through the regional government authorities. Humanitarian needs in the Humanitarian Response Plan (HRP) are compiled by the United Nations Office for the Coordination of Humanitarian Affairs (UN-OCHA) using multiple data sources. These sources include assessments by the Government and United Nations organizations, including WFP. The Government plays a significant role in implementing activities 1, 2, 3 and 4 of the CSP, and is responsible for targeting, registration, and distribution to beneficiaries.

29. The country office has provided significant food procurement and transport services to the Government since 2020, reaching close to USD 300 million during the audit period. On-demand logistics services were also provided to more than 50 organizations, comprising government and non-governmental partners as well as other United Nations entities, for a total value of USD 10 million.

30. There were incremental changes to the organizational structure over the audit period and a new organizational chart was approved in September 2022. The country office increased its staffing levels by 20 percent to reach a headcount of 1,140 staff across 15 field locations.

Events subsequent to the audit fieldwork

31. Allegations of significant post-delivery food aid diversion in the Tigray were made in March 2023, and later in other regions of Ethiopia, further to significant aid sale by the refugee community and potential fraudulent food diversion schemes in all regions.

³ The Humanitarian Response Plan, November 2022, [link](#)

⁴ FEWSNET Ethiopia Food Security Outlook, February to September 2022, [link](#)

⁵ Budget Revision 5, WFP Ethiopia Country Office, June 2022, [link](#)

32. On 4 May 2023, WFP and the United States Agency for International Development (USAID) suspended food distributions in the Tigray Region. A WFP management-led review launched subsequently concluded that systemic gaps occurred in the implementation of WFP's assurance measures and controls in Ethiopia. On 9 June 2023, WFP announced a country-wide pause of general food distributions while assurance measures and controls are being enhanced.

33. At the time of this audit reporting, WFP was implementing the Ethiopia Assurance Project which aims to target the people most in need of assistance and put in place sufficient assurance measures and controls to ensure that only the intended beneficiaries receive WFP's assistance. To achieve this, WFP is updating its operations and procedures⁶ throughout the country using a phased approach starting with Tigray and subsequently expanding to all other regions. The first phase of the project will run from June to September 2023 with a dedicated project team.

34. Following the situation in Ethiopia, WFP has established a High-Level Task Force on Monitoring and Identity Management, chaired by the Deputy Executive Director, with the broader remit to review and upgrade the assurance framework for general food distribution in all high-risk operations.

35. It is recalled that in its April 2022 consolidated insights on supply chain in the field, the Office of Internal Audit had highlighted the need for a corporate decision and articulation of the end-to-end control framework and underlying system requirements to ensure the right beneficiary receives the right food.

Objective and scope of the audit

36. The objective of the audit was to provide assurance on the effectiveness of governance, risk management and internal control processes related to WFP operations in Ethiopia. Such audits contribute to an annual and overall assurance statement to the Executive Director on governance, risk management and internal control.

37. The audit is subject to a scope limitation in that the operations in Tigray were excluded from this audit due to the lack of access and ongoing conflict at the time of audit planning and fieldwork. Of the 515,000 metric tons of food commodities distributed in the audit period in the whole country, 93,000 metric tons (18 percent of the total distributed) were distributed in Tigray and excluded from the review. As a result, this audit could not provide assurance whether key controls related to the seven areas included in the audit scope (as listed in paragraph 41) signed and operating effectively in the Tigray region. The audit however covered the neighbouring regions as part of the Northern Ethiopia response.

38. The audit focused on activities 1, 2, 9 and 11 under strategic outcomes 1 and 5, representing 79 percent of the CSP's expenses during the audit period:

- Activity 1 – Provide unconditional, nutrition-sensitive, in-kind, and cash-based food assistance to crisis-affected populations and transitory clients of the Productive Safety Net Programme.
- Activity 2 – Support treatment and prevention of acute malnutrition for crisis-affected children aged 6–59 months and pregnant and lactating women and girls.
- Activity 9 – Provide supply chain and engineering services to government and humanitarian partners.
- Activity 11 – Provide on-demand food procurement services to government and humanitarian partners.

39. As part of its scope for this audit, the Office of Internal Audit applied the focused audit approach developed in the COVID-19 context, focussing on five key areas of the end-to-end country office delivery process, complemented with a risk-based audit methodology to determine additional priority focus areas.

⁶ Including but not limited to needs assessments, targeting and registration, the procedures and physical location of food distributions, food packaging, commodity tracking, increasing cash distributions where possible, monitoring and reporting, and community feedback mechanisms.

40. Further, to minimize duplication of efforts and leverage the second-line assurance work, the audit relied on the regional bureau's oversight coverage of logistics, monitoring including the community feedback mechanism, finance and administration, budget management.⁷ Cash-based transfers amounted to USD 38.8 million or 4 percent of total expenses over the audit period. Given the coverage of the last internal audit (2019) and the regional bureau management oversight, as well as the materiality of the amount transferred, the audit did not include this process area in its scope. It also did not include in its scope community feedback mechanisms, covered through the regional bureau oversight of monitoring in 2021.

41. As a result, seven areas were in scope for the audit: (i) beneficiary management; (ii) management of cooperating partners; (iii) monitoring; (iv) donor relationship management; (v) supply chain; (vi) service provision; and (vii) humanitarian access.

42. Based on the beneficiary caseload, materiality of food inventory and commodities dispatched as well as fleet size, the audit team conducted fieldwork in country between 7 and 23 November 2022, in the main office in Addis Ababa and visited three field offices in: (i) Adama, the logistics hub of the country office where 44 percent of commodities were stored (95,000 out of 215,000 metric tons in stock or 44 percent); (ii) Jijiga, the area office for the Somali region where 39 percent of commodities were dispatched for distribution (199,000 out of 515,000 metric tons); and (iii) Semera, a transit point between Djibouti and Ethiopia, and one of the corridors to Tigray, where 40 percent of the WFP truck fleet was located (123 out of 309 active trucks).

43. The audit covered the period from 1 June 2021 to 31 August 2022.

44. With the calendar of distribution rounds set by the Government, during the audit field visit, there were no general food distributions ongoing at any food distribution point for the relief activity. As such, the audit team was unable to observe food dispatches, transportation, and distribution to beneficiaries under the emergency response (Activity 1).

45. During its field visits, the audit team observed a government-led distribution for the targeted supplementary feeding and nutrition activity (Activity 2) and met beneficiaries, specifically in the nutrition centers in Jijiga. In Jijiga, Semera and Adama. The audit team also observed warehouse management practices, receipt and dispatch of food and inspected the food stored in the warehouses. The audit team observed the use of the Last Mile mobile application in the Somali region and observed fleet and spare parts management practices as well as commodity accounting in Adama and Semera.

46. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

⁷ Conducted in May 2022, July 2021, October 2021, and February 2020 respectively.

III. Results of the audit

Audit work and conclusions

47. The following sections correspond to the seven areas in the audit's scope (as described in paragraph 40), with related observations arising from the audit.

48. A simplified standard process diagram is included for several audited functional areas. These diagrams indicate the key control areas reviewed. When the audit noted exceptions or weaknesses, the related observations are shown, along with their priority rating (red for high-priority and yellow for medium-priority observations). Any other audit issues assessed as low priority were discussed with the country office directly and are not reflected in the report.

Programme design

49. As noted in the 2020 audit, the Government of Ethiopia was and continues to be the most important humanitarian and development actor in the country, defining and leading all policy processes, institutional structures, and organizational arrangements at federal, regional and sub-regional levels. As is true for all humanitarian and development partners, WFP's activities and support for the Government should be delivered exclusively in partnership with Government agencies, within defined boundaries, with strong implications for autonomy of action, segregation of duties and enforcement of key standards of accountability and risk management.

50. Compared to the 2020 audit, the current audit noted positive practices to support the achievement of gender equality outcomes in food security and nutrition. The CSP design fully integrated gender and the logical framework comprised gender-sensitive indicators. Agreements with cooperating partners included clauses on diversity, inclusion and gender equality, and third-party monitors were required to hire at least 30 percent of female staff. The country office had made efforts towards gender parity in its staffing, notably through an internship programme for women.

51. The section below outlines 'who does what' in the Ethiopia programmatic and operational set-up for Activity 1 in place during the audit period. Further details on roles and responsibilities upstream and downstream in programme delivery are in Table 1: *Upstream programme process and stakeholders* and Table 2: *Downstream programme process and stakeholders* overleaf.

52. Food delivery in Ethiopia is provided by three main actors, the Ethiopian Disaster Risk Management Commission (DRMC), the Ethiopia Joint Emergency Operation Program (JEOP) and WFP, in dedicated regions and woredas (the equivalent of a district).

Coordination of actors in humanitarian needs assessment (upstream)

53. Humanitarian needs in the Humanitarian Response Plan (HRP) are compiled by the United Nations Office for the Coordination of Humanitarian Affairs (UN-OCHA) using multiple data sources. These sources include assessments by the Government and United Nations organizations, including WFP.

Role of the Government (upstream and downstream)

54. Upstream, the Government regularly collects data and conducts assessments on drought, household economy, food insecurity, and famine (upstream step 1). The Government and its agencies/entities lead the implementation of activities 1, and 2 of the WFP CSP and are responsible for beneficiary targeting and registration (upstream step 2). In addition, for Activity 1 of the CSP, the Government sets the timing and location of distribution rounds in the year and provides WFP, DRMC and JEOP with spreadsheet-based aggregate numbers of beneficiaries to assist per woreda, based on the Household Economic Analysis led by the Government (upstream step 3). The outcome of the Analysis often gets contested and adjusted by regional authorities at a later stage.

55. Downstream, the regional government authorities at the woreda level and kebele (village) level are contracted through field level agreements with WFP and, hence, act as cooperating partners; they are

responsible for warehouse management and distributing the food to the beneficiaries (downstream step 4 and step 5).

Role of WFP (upstream and downstream)

56. WFP's role in upstream activities is limited to being consulted or informed by the Government and/ or UN-OCHA in their respective areas of responsibilities, except for additional food security assessment and market price monitoring (upstream step 1 and step 2).

57. Upstream, WFP also plans food movements based on the information received from regional government entities to ensure availability of adequate quantities for final transportation and handover (upstream step 3).

58. Downstream, WFP supports with the sourcing and transport through commercial transporters and its fleet of trucks to deliver and handover food commodities to WFP-contracted regional government authorities and non-governmental organizations (through FLAs) at various food distribution points and warehouses (downstream step 4 and step 5).

59. WFP field monitors are responsible for outcome, output and process monitoring. They review partner distribution reports and undertake, on a quarterly basis, a reconciliation between cooperating partner distribution reports and food deliveries in WFP systems (downstream step 6).

Role of downstream partners (non-governmental organizations and regional government entities)

60. WFP contracted partners – i.e., regional government entities, as indicated in paragraph 58 above, and non-governmental organizations (national and international) – are responsible for the warehousing and distribution to beneficiaries at the food distribution points (downstream step 4 and step 5).

61. The third-party monitor, also a non-governmental organization, funded by the main donor to enforce accountability in the Ethiopian response, has been present in the Somali region since 2021. It undertakes process monitoring on relief and nutrition activities and is present at warehouses, food distribution points and in markets. In addition, it also confirms the receipt of food at warehouses and food distribution points and scans waybills by using the Last Mile solution (downstream step 6).

Table 1: Upstream programme process and stakeholders

L	Stakeholders leading the process	C	Stakeholders consulted	I	Stakeholders informed
PROCESS AND STEPS					
1. Needs assessment (See Figure 1 and Observation 1)					
1.1.	Regularly collects data and conducts assessments on drought, household economy, food insecurity, and famine.	L	C		I
1.2.	Develops the Humanitarian Response Plan (HRP) based primarily on assessments and data from the federal government. Food sector data in HRP becomes another key driver for WFP numbers.	C	C	L	C
1.3.	Monitors humanitarian response progress and changing needs on a regular basis.	L	C	C	C
	WFP's role: Conducts additional food security assessments, and independent market price monitoring as part of its regular Research, Assessment and Monitoring (RAM) activities.	C	C	I	L
2. Beneficiary targeting and registration (See Figure 1 and Observation 1)					
2.1.	Allocate woredas and kebeles, for geographic targeting, to the three main operators: Ethiopia Disaster Risk Management Commission, Joint Emergency Operations, and WFP.	L	C		I
2.2.	Collect data for household targeting at kebele level based on the government-issued National Guidelines on Targeting Relief Food Assistance (August 2021)	C	L		I
2.3.	Select and register beneficiaries using government manual systems to develop distribution lists.	C	L		I
	WFP's role: As one of the 3 humanitarian operators for food assistance, WFP regularly coordinates and engages with government counterparts and other humanitarian actors in the HRP implementation. WFP provided technical, logistical and financial support in the previous targeting exercise led by the regional government/kebele level.				



PROCESS AND STEPS	Federal Government	Regional Governments	UN-OCHA	WFP
3. Planning for distribution rounds (See Figure 1 and Observation 1)				
3.1. Determine the aggregate beneficiary numbers at kebele level and decides the timing of the next distribution round.	C	L		I
3.2. Request, from WFP, food inventory based on the aggregate beneficiary numbers to receive assistance.	C	L		I
WFP's role: WFP is regularly informed of beneficiary numbers and food quantities required at each Kebele, by the regional authorities. WFP plans food movements between its logistic hubs and warehouses to ensure availability of adequate quantities for final transportation and handover to cooperating partners.				I

Table 2: Downstream programme process and stakeholders

L	Stakeholders leading the process	C	Stakeholders consulted	I	Stakeholders informed
PROCESS AND STEPS	WFP	Regional Government partner	NGO partner	TPM	
4. Food transfer and handover to cooperating partners (See Figure 4 and Observation 2)					
4.1. Coordinates food delivery to Kebeles from nearby warehouses, based on planned quantities and partner requests, in collaboration with transporters.	L	C	C		
4.2. Dispatches food from WFP warehouses to kebeles using commercial transporters or WFP trucks	L	I	I		
4.3. Receive, store, and manage food commodities at kebele level until final distributions to beneficiaries.	I	L	L		



PROCESS AND STEPS	WFP	Regional Government partner	NGO partner	TPM
5. Last mile distribution to beneficiaries (See Figure 4 and Observation 2)				
5.1. Verify beneficiary identities against the distribution lists, and distribute food to beneficiaries	I	L	L	
5.2. Reporting actual beneficiaries assisted and food distributed	I	L	L	
6. Programme monitoring of downstream processes (See Figure 2 and Observation 4)				
<u>Note:</u> WFP outsources programme monitoring in the Somali region to a third-party monitor while using its own field monitors for the rest of the regions.				
6.1. Monitoring activities for Process 4: Food transfer and handover to cooperating partners <ul style="list-style-type: none"> a) WFP develops a monitoring plan and decides on the use of WFP field monitors, or third-party monitors and then coordinates site distribution monitoring. b) Regularly conduct spot checks of stored food inventory at partner locations. c) The third-party monitor scans waybills at partner locations to confirm stock receipts. d) Report food incidents, food losses, and potential diversion. Food misuse issues are discussed at the management level during the quarterly food management committee meetings and escalated to the government from time to time. 	L	C	C	L
6.2. Monitoring activities for Process 5: Last mile distribution to beneficiaries <ul style="list-style-type: none"> a) Conduct process monitoring during distribution, oversee how distribution is organized and the quantities distributed, and collect beneficiary feedback. b) Report known incidents during or after distribution. c) Review cooperating partner distribution reports (by area offices). d) Perform quarterly consolidation and reconciliation of distribution reports (by the country office). e) Conduct Food Security Outcome Monitoring to assess if outcomes are achieved. 	L	C	C	L



Risk exposures resulting from programme design

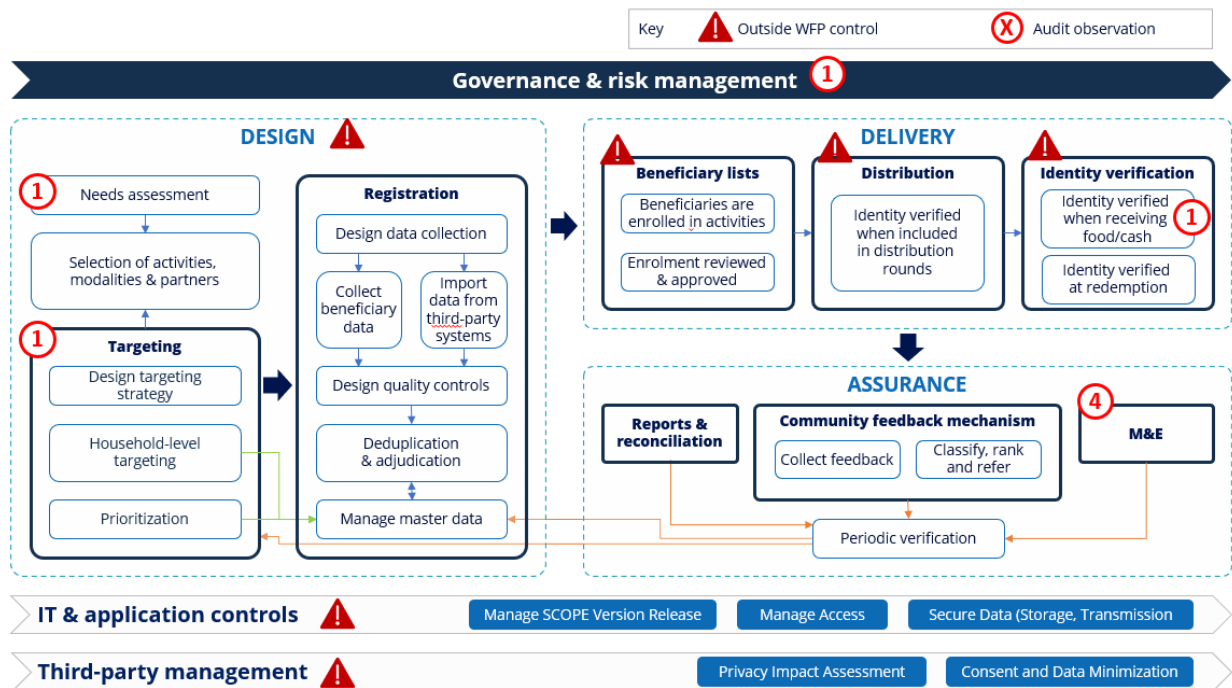
62. The programme design and operational set-up in working with the Government, as highlighted in the 2020 internal audit report, continues to carry significant operational risks given that beneficiary targeting, identity verification, storage and distributions at food delivery points are outside WFP’s perimeter of control.

63. The insufficient segregation of duties between targeting, registration, storage and distribution at food delivery points resulted in increased fraud risks in the last mile distribution to beneficiaries. These risk exposures impacted (i) beneficiary management and (ii) the management of cooperating partners, as further detailed under Observation 1: and Observation 2: below.

1. Beneficiary management

64. In 2022, WFP assisted 10.2 million beneficiaries, of whom 6.4 million (63 percent) were food insecure Ethiopians in four regions (Afar, Amhara, Tigray and Somali) that received relief assistance under the Humanitarian Response Plan; 3.1 million (30 percent) were children and pregnant and breastfeeding mothers that received nutritional assistance; and 760,000 (7 percent) refugees.⁸ The audit reviewed the assessment and targeting processes and the verification of beneficiary identities at distributions.

Figure 1: Simplified process diagram and related audit observations for beneficiary management



Observation 1: Absence of controls in assessments, targeting and identity verification

Food security assessments

65. Data underlying food assistance needs is compiled in the Humanitarian Response Plan by UN-OCHA jointly with the Government and supported by WFP, other humanitarian actors, and donors. The HRP was not timely released to humanitarian actors.

66. The country office conducted additional food security assessments in 2022, including an emergency assessment in Amhara and Afar, and a food security monitoring system review in Afar and Somali. The results on the number of food-insecure people were not consistent with the HRP due to the differences in the methodologies used for both assessments, highlighting the need for increased coordination to ensure resources are targeting the most vulnerable.

⁸ Ethiopia Annual Country Report 2022.



Targeting and verification

67. The government-led targeting process relied on a combination of administrative and community-based targeting mechanisms. Beneficiary registration and related systems are managed by the Government. The Government maintains paper-based beneficiary lists and provides the country office paper-based aggregated numbers of targeted beneficiaries to assist and the locations where rounds of distribution will occur.

68. As a result of government-led beneficiary targeting and registration processes, WFP was unable to provide assurance on whether needs were accurate and whether it was assisting the most vulnerable. In addition, as WFP receives paper-based aggregate numbers of beneficiaries to serve in specific locations, WFP was unable to verify beneficiary identities at the household or individual level. The audit acknowledges the absence of corporate guidance on identity management for in-kind food distribution in the audit period.

69. The country office had started in November 2022 engaging with the regional bureau and headquarters to enhance a data-driven and vulnerability-based targeting strategy and to leverage government-led social protection programmes to digitalize beneficiary lists.

Underlying causes: Limitations in the programme design due to the federal Government being in control of targeting, registration, aggregate lists and regional Government mainly responsible for distributions; and delays in finalizing corporate guidance on working with the Government.

Agreed Action [High priority]

The country office will formally reassess with the relevant headquarters units how to meet corporate standards on the management of targeting processes,⁹ working with other humanitarian actors in the country to update existing guidelines.

Headquarters were finalizing guidance on the business model for engaging and working with government entities, in response to observations raised in previous internal audits of country office operations.¹⁰ The document was in the draft stage at the time of the audit reporting phase and expected to be finalized in the third quarter of 2023.

Timeline for implementation

31 December 2023

2. Management of cooperating partners and last mile distribution to beneficiaries

70. Over the audit period and for the regions in scope (i.e., excluding Tigray), the country office committed to distribution agreements with 45 cooperating partners for a total value of USD 19.3 million: 30 governmental partners (37 percent of this amount or USD 7.1 million) and 15 national and international non-governmental organizations (63 percent or USD 12.2 million).

71. The audit assessed the partner selection, contracting, performance evaluation, reporting and capacity-strengthening processes.

72. Since the 2020 internal audit, the country office has improved the management of cooperating partners and strengthened the operational partnerships unit. The country office also developed standard operating procedures to govern the relationship with government partners in view of the absence of corporate guidance in this regard.

⁹ Executive Director's Circular OED2022/26, Management of Targeting Processes by WFP Offices, December 2022.

¹⁰ Internal Audit of WFP Operations in Ethiopia (AR/20/05), February 2020, [link](#). The need of developing the business model and guidance for working with government entities has been reiterated in subsequent internal audits of WFP country office audits.



Observation 2: Government capacity challenges regarding distributions

Performance of government partners

73. The country office's annual risk register highlighted risks related to the poor performance of government partners. The country office conducted performance evaluations and capacity improvement plans for non-governmental partners, yet this was not the case for government partners during the audit period. From the audit work performed, the government partners' capacity gaps were mainly in output reporting, where discrepancies were identified.

74. Since 2021, because of the longstanding performance and capacity issues with the regional government partners, the country office relied as a mitigating measure on a third-party monitor in the Somali region, to carry out some tasks such as scanning waybill barcodes at government partners' food reception locations. While the third-party monitor detected and reported on commodity losses, including instances of theft and diversion, in the Somali region, the additional operational tasks requested from the same third-party monitor, i.e., scanning waybills, created a segregation of duties conflict between monitoring and operational tasks performed by the same entity.

Last mile distribution to beneficiaries

75. Because of the limited partner's capacity and poor connectivity in the field, WFP's Last Mile application was not systematically used. Food losses,¹¹ which included instances of pre-delivery diversion, reported in WFP systems were 1.2 percent of the total food distributed during the review period. The audit notes the absence of corporate guidance or requirements for the follow-up and management of losses from government partners responsible for distribution to beneficiaries.

76. In its review of food commodity management,¹² the Office of Internal Audit concluded that food dispatch and handover to partners, as well as the last mile distribution to beneficiaries, are most susceptible to fraud risks; and that food diversions are mainly happening at the partner level. The review also highlighted that WFP does not systematically review and validate losses reported by partners. It recommended, at the corporate level, the need to address the structural factors underlying the control weaknesses – by clarifying commodity management roles and responsibilities in the final stages of delivering assistance to beneficiaries and developing a real-time integrated commodity tracking solution up to the last mile.

Field-level agreement and partner selection

77. Two of the 20 cooperating partner agreements reviewed were signed without the cooperating partner committee's endorsement.

78. In addition, the country office signed cooperating partner agreements and amendments (for 12 out of 20 agreements) and amendments were signed after their start dates. Efforts were under way by the country office at the time of audit reporting to address these issues.

Underlying causes: Limitations in the programme design set by the regional Government; insufficient management of risks related to insufficient segregation of duties between targeting and distribution by the Government; and delays in finalizing corporate guidance on working with the Government.

¹¹ Total food losses registered in LESS were 5,450 metric tons out of 515,000 distributed.

¹² Proactive Integrity Review Reports of Food Commodity Management: Phase 1 – Fraud risk assessment (PIR-21-01, issued in January 2022) and Phase 2 – Testing of controls (PIR-23-01, issued in May 2023), available to WFP member states on their dedicated portal.



Agreed Action [High priority]

The country office will document the performance review and improvements of government partners and, if needed, will expand its pool of other partners for distributions.

Headquarters were finalizing guidance on the business model for engaging and working with government entities, in response to observations raised in previous internal audits of country office operations (refer to footnote 10). The document was in the draft stage at the time of the audit reporting phase and is expected to be finalized in the third quarter of 2023.

Timeline for implementation

31 March 2024

Country portfolio budget

79. The CSP was designed in 2020 to address food crisis root causes, improve national capacity, and progressively reduce relief activities. The five-year CSP (2020-2025) was originally planned to assist 20 million beneficiaries with a country portfolio budget of USD 2.4 billion.

80. The country portfolio budget was revised five times, with the fifth revision in May 2022 increasing the number of beneficiaries to 25 million, and the budget to USD 5.0 billion, representing a 25 percent increase in beneficiaries and a 98 percent increase in the budget. These revisions included budget provision for on-demand food procurement services to the Government and humanitarian partners.

81. The audit reviewed the budget revisions to the CSP, underlying assumptions, process for budget revisions and alignment of the assumptions with the operational direction.

Observation 3: Unrealistic country portfolio budget assumptions

82. The humanitarian needs and the country office's operational direction, as assessed by the programme and supply chain units, have evolved since the inception of the CSP. The most recent needs-based budget maintained a decreasing trend in relief activities (Activities 1 and 3) for the period 2023 to 2025 despite the actual scale-up of relief activities and the increasing funding outlook.

83. The initial CSP aimed to reduce beneficiary numbers by 33 percent and food transfer volume by 20 percent by 2025. However, with the conflict and drought emergencies in 2021 and 2022, the operational direction and priorities changed. In 2022, the country office increased its plan to assist 40 percent more beneficiaries and transfer 150 percent more food than initially anticipated.

84. While immediate needs for 2023 were revised accordingly, the needs for the remaining period of the CSP were not adjusted to align with programme needs. The plan for 2023-2025 still indicates a decrease in relief requirements, while the supply chain plans are geared towards scale-up of operations, anticipating increased needs.

85. As a result, the budget for supply chain costs was partially based on needs and not fully adjusted to the implementation plan which has a more realistic operating outlook as further detailed in [Observation 5](#).

Underlying causes: Operational uncertainty due to conflict; emergency response driven by the Government; and different planning hypotheses used by the programme unit and supply chain unit.



Agreed actions (Medium priority)

The country office will review its needs-based plan for the remaining period of the country strategic plan.

Note: the last budget revision to the country strategic plan was approved in February 2023. The Office of Internal Audit will review the implementation of this agreed action as part of its regular processes.

Timeline for implementation

30 September 2023.

Humanitarian access

86. Humanitarian access constraints have evolved over the audit period due to conflict dynamics, bureaucratic and administrative impediments, and an increase in security incidents in some regions.

87. The management of access-related issues was a joint responsibility between several units. A civil-military coordinator was based in the Afar region during the audit period to facilitate access negotiations and the country office was starting to mainstream conflict sensitivity programming across its activities.

88. The audit reviewed roles and responsibilities as well as the scope of work of the different units involved in access management. While the establishment of an access cell could be considered best practice, the audit did not identify issues in the management of access-related issues.

Monitoring

89. Monitoring in the country office covers outcome, output, and process monitoring. For output monitoring, WFP monitors in field offices review government and non-government partner distribution reports, which include aggregate numbers of food distributed and people assisted by woreda (district) and enter the data in COMET,¹³ WFP's comprehensive online tool to design, implement and monitor programmes and performance management. The country office monitoring team then completes on a quarterly basis reconciliation between COMET and LESS¹⁴ (the corporate tool for real-time management of commodities in the supply chain, from the point of receipt to the point of dispatch, either to cooperating partners or final distribution points managed by WFP).

90. The country office had 100 internal monitors across the whole country. In 2021, it established, with funding from its main donor, third-party monitoring in the Somali region to enforce accountability in the Ethiopian response. Hence, in that region, process monitoring of relief and nutrition activities through internal monitors is complemented by third-party monitors present at food distribution points, in markets, internally displaced people's camps, and warehouses; these third-party monitors also report irregularities to WFP through their biweekly flash reports, monthly narrative reports and incident reports as they happen. In other regions, WFP field monitors from area and field offices performed monitoring visits and checks.

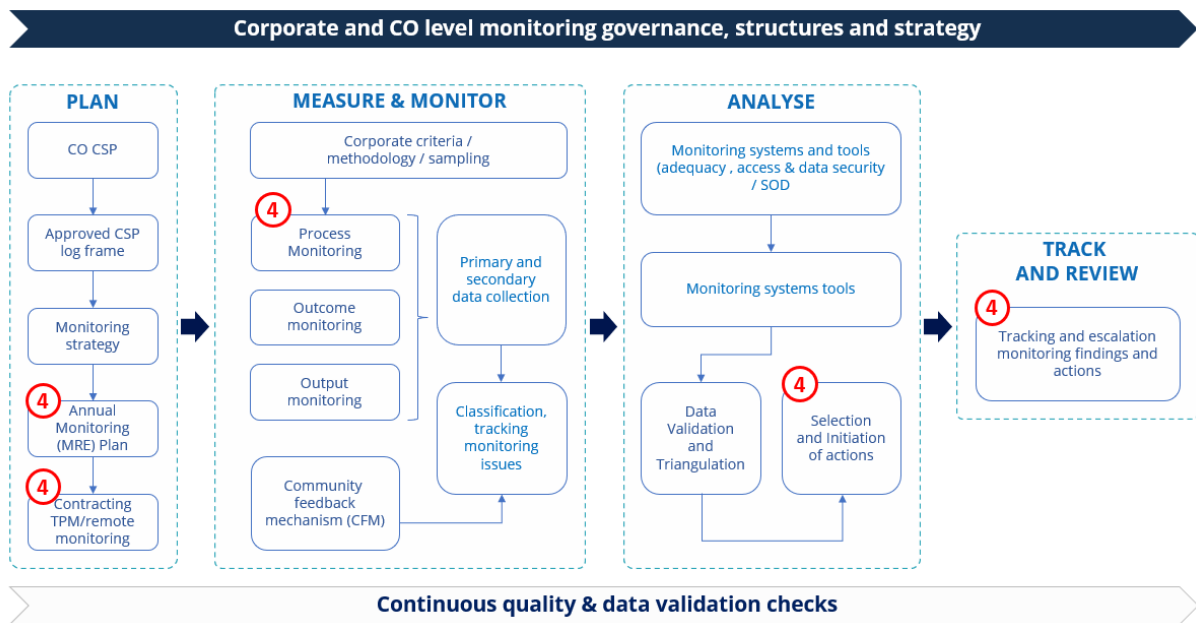
91. Since the 2020 internal audit and the 2021 regional bureau oversight mission, the country office has been working on implementing previous oversight recommendations and improving its monitoring processes. As a result, a monitoring strategy, plan, and budget were in place and reviewed annually. The country office developed standard operating procedures for monitoring, community feedback mechanism, incorporating escalation criteria and protocols, and for the use of COMET; quarterly reconciliations with government partner stocks were established. In addition, guided by the annual corporate monitoring, review and evaluation planning and budgeting framework, there were baseline and target indicators for monitoring outcomes, except for resilience activities which were being worked on at the time of the audit fieldwork.

92. The audit reviewed monitoring plan, coverage, systems, and tools for analysis and tracking monitoring issues as shown in Figure 2 overleaf.

¹³ WFP's Country Office Tool for Managing (programme operations) Effectively.

¹⁴ WFP's Logistics Execution Support System.

Figure 2: Simplified process diagram and related audit observations for monitoring



Numbers in the diagram represent the related audit observations and their respective priority rating (red represents high-priority observation).

Observation 4: Limited monitoring coverage and escalation of food diversion incidents

Monitoring coverage and use of third-party monitors

93. In 2022, for the locations in scope (excluding Tigray), the monitoring coverage of the 2,735 active sites (out of a total of 8,281 sites) through internal and third-party monitors) was 34 percent.¹⁵ Nonetheless, the audit found suboptimal monitoring coverage through independent and impartial monitors in several locations covered by the audit scope.

94. The review of programme monitoring in the Afar region confirmed that the country office lacked adequate staffing capacity to effectively monitor activities in the region (where 10 percent of food were dispatched in the audit period). For example, the Magale and Goran woredas (districts) had not been monitored for more than one year. In Semera, of the 75 food distribution sites, at least 60 percent were monitored for distribution by internal monitors but due to security challenges, there was only 3 percent or less warehouse monitoring visits in the January to October 2022 period. Additionally, monitoring coverage of nutrition and targeted supplemental feeding activities in the Northern region was below target, in part due to limited access, suspension of the programme in January to June 2022 due to shortage in supplies, and connectivity to warrant remote monitoring.

95. In the Somali region, with 168 third-party monitors across the 93 woredas, the country office achieved an independent monitoring coverage of 86 percent of all relief and targeted supplemental feeding activities in the region in 2022.

96. As a pillar to its monitoring strategy, third-party monitors were planned for roll-out in Afar and Oromia at the time of the audit fieldwork, with a contract signed already for Oromia in July 2022. Three third-party monitors were in the process of onboarding at the time of the audit reporting. Nonetheless, during the audit period, third-party monitoring was not in place in these areas nor in difficult to reach locations with access restrictions such as Gambella. While there was some coverage by internal monitors in these three regions, independent monitoring checks on programme design and implementation and detection capabilities of food misuse and misappropriation were limited.

¹⁵ Not all project sites were active on a monthly basis. On average some 2,735 sites were operational and active in 2022.



Escalation mechanisms and addressing root causes

97. As highlighted in [Observation 2](#), because of longstanding capacity and performance issues with the government partners, as a mitigating measure, the country office also deploys third-party monitors to confirm the receipt of food (a task normally completed by cooperating partners) by using the Last Mile solution.

98. The use of the third-party monitor in the Somali region complemented by WFP internal monitors detected and reported on 88 food misuse and misappropriation cases at government-led distribution points from January to April 2022. These amounted to 261 metric tons of food reported as misappropriated, of which 69 metric tons (26 percent) were subsequently recovered.

99. While there were: (a) systems in place for recording and tracking monitoring issues with standard operating procedures established; and (b) discussions and follow-up thereon were happening at the management level, the existing escalation mechanisms for high priority monitoring issues did not result in timely actions and decisions to address the issues.

Underlying causes: Insufficient budgeting for internal monitoring staff capacity given the number of food distribution points; and escalation mechanism not addressing the root causes for high priority monitoring issues and not triggering prompt action.

Agreed Actions [High priority]

The country office will:

- (i) review its budget allocated to internal and third-party monitoring capacity to address the required monitoring coverage across all regions.
- (ii) strengthen the escalation mechanism to address root causes of high priority monitoring issues and trigger prompt action on food losses, misappropriation, and diversion cases across the country.

Timeline for implementation

31 December 2023

Supply chain (including logistics and procurement)

100. The audit reviewed supply chain costs and assessed logistics as well as procurement key controls.

Observation 5: Insufficient review of supply chain budget and costs

101. Since 2020, supply chain costs per metric ton rose by 57 percent. Although food distributions increased by 10 percent, fixed and variable cost components soared by 125 percent and 46 percent respectively.¹⁶ Expansion of the truck fleet (see [Observation 7](#)), warehousing capacity, and staffing were the primary drivers for the increase in fixed cost. This structure and corresponding fixed costs may not be financially sustainable should contributions and humanitarian needs decrease.

102. Variable food transfer cost has been increasing frequently due to inflation, currency devaluation and fuel price hikes. The supply chain budget did not account for changes in actual expenses and distributed quantities. The budget for certain cost components was in some cases significantly higher than the actual expenses, such as the capital expenditure for fleet already funded by donors.

103. As of January 2023, under relief activities, the country office had available funds for 10 months of supply chain costs, as opposed to funds for two months' worth of food.

Underlying causes: Operational uncertainty due to conflict and government driven emergency response; budget process (and revision) based on needs and not adjusted to the implementation plan, and expectations by headquarters, donors, and government to scale up operations.

¹⁶ Based on the country office's supply chain matrices in 2020 and 2022.



Agreed actions (Medium priority)

The country office will:

- (i) Identify cost efficiencies and opportunities for rationalizing the supply chain structure.
- (ii) Regularly review its supply chain budget based on the implementation plan and actual costs.

Timeline for implementation

31 December 2023.

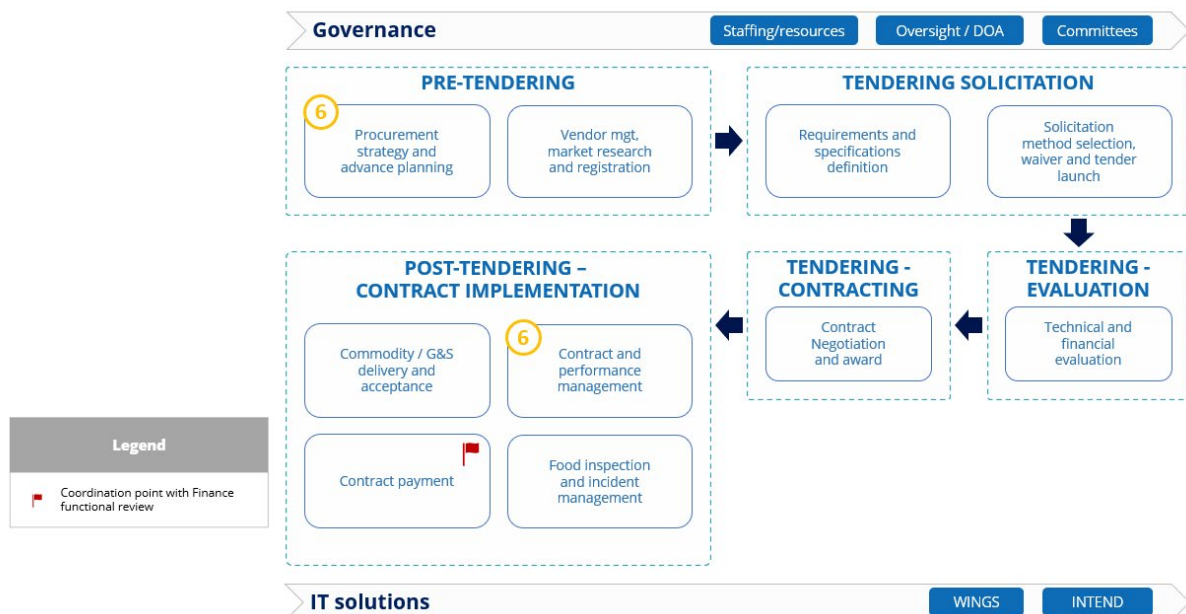
Procurement

104. The procurement of goods and services for the audit period amounted to USD 72 million, of which 65 percent (USD 47 million) was waived from competition. This includes the purchase of transport trucks for USD 21 million.

105. The audit reviewed local procurement of goods and services and tested key controls of governance, solicitation, contracting, and supplier due diligence and performance monitoring, as illustrated in Figure 3.

106. At time of the audit fieldwork, the country office was recruiting additional staff to strengthen the procurement function in two large field offices. The procurement unit used a tracker to strengthen operational effectiveness and timely delivery of goods and services. The country office launched training on procurement processes and planned to extend the training to requesting units in 2023.

Figure 3: Simplified process diagram and related audit observations for procurement



Numbers in the diagram represent the related audit observations and their respective priority rating (yellow represents medium-priority observations).



Observation 6: Unplanned procurement and contract adjustments

107. Procurement plans developed by each functional unit were not used. The review of waiver requests indicated that the justification of the emergency response was, at times, the result of late action to initiate procurement requests based on the plan.

108. For 20 percent of contracts reviewed in the sample, representing a total amount of USD 967,000, initial needs were increased or amended for new ones. These modifications highlight the financial risks and potential fraud risks from unplanned requests for cost adjustments. In one instance, performance evaluations were found to be positive despite indications of poor supplier performance.

Underlying causes: Pressure to implement within the contributions' timeline (see [Observation 8](#)); accountability of requesting units to initiate procurement actions in a timely manner not enforced; and procurement contract fraud risks and mitigation measures not established.

Agreed actions (Medium priority)

1. The country office will monitor the use of procurement plans by requesting units to ensure waiver requests are adequately justified.
2. The country office will, with support from the regional bureau, conduct a procurement fraud risk assessment and establish fraud risk mitigation measures.

Timeline for implementation

1. 31 December 2023.
2. 30 September 2023.

Logistics

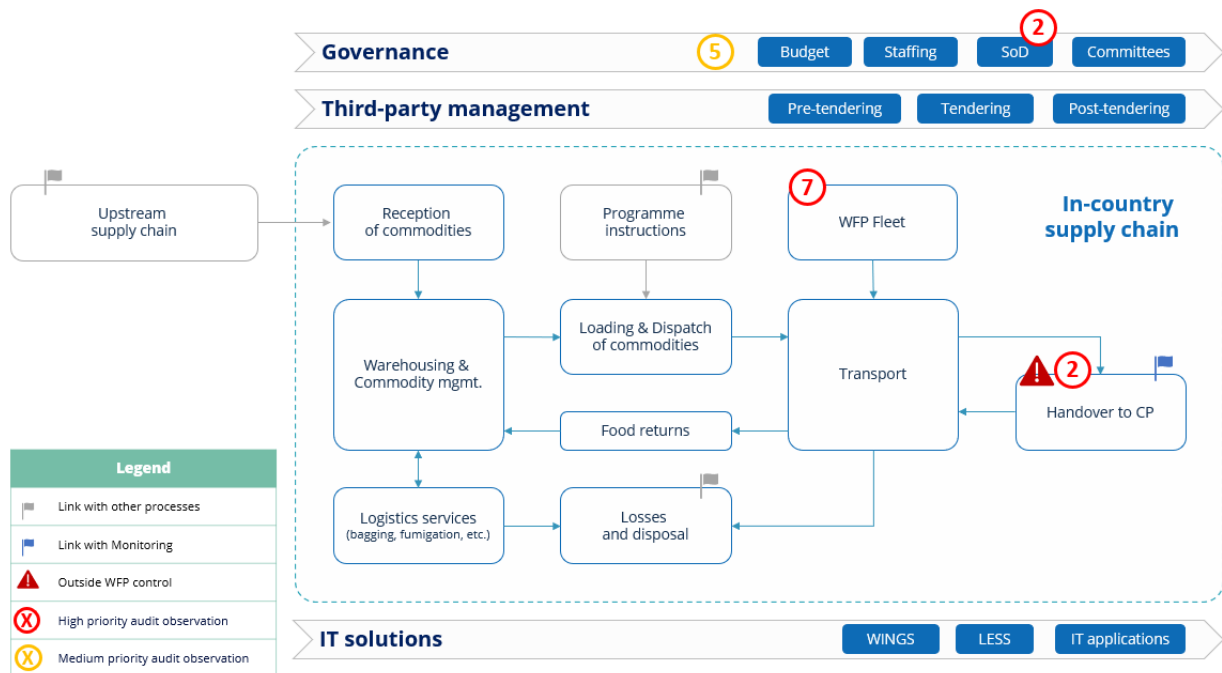
109. During 2021 and 2022, the country office increased its level of humanitarian assistance and expanded its supply chain structure with substantial investment in WFP's fleet of trucks, enhanced storage capacity, and management resources to support the scale-up operations.

110. The country office used three corridors and nine logistics hubs in the country to pre-position food with a total warehousing capacity of 515,000 metric tons. It primarily used commercial transporters and expanded its own fleet of trucks from 160 to 550 over the period in scope. Over the audit period and for the regions in scope, the country office distributed 422,000 metric tons of food.

111. The audit reviewed governance and risk management practices, the concept of operations, and key controls relating to budgeting and monitoring food transfer costs, warehouse and commodity management, and transport activities.

112. The logistics unit was well resourced and proactively anticipated and planned for increasing needs. In the locations visited by the audit team, warehouses were managed by the country office, and warehouse management practices were of a good standard.

Figure 4: Simplified process diagram and related audit observations for logistics



Observation 7: Management and commodity accounting issues with WFP's fleet

113. The country office used its own fleet in areas where commercial transporters were unable or unwilling to operate, particularly for the emergency response in Northern Ethiopia's Tigray, Amhara, and Afar regions.

114. During the audit period, WFP fleet trucks transported 12 percent (63,000 metric tons) of the total amount of food distributed. The fleet was mainly used to transport food from Semera (27,000 metric tons), Gambela (13,000 metric tons), and Mekele (8,000 metric tons).

115. Operational management for WFP's fleet of trucks was mostly performed outside of the corporate system for recording, monitoring, and reporting activity related to heavy vehicles. Data entry from manual documents was often with delays, incomplete and prone to errors. As a result, the country office was unable to monitor and accurately assess the fleet's utilization and ensure its optimal performance. The fleet's usage to transport only 12 percent of total food quantities, considering its high fixed costs, may not indicate an optimal performance.

116. Commodity accounting for the fleet of trucks, including confirming delivery through waybills, was challenging. An analysis in November 2022 show that 30 percent of deliveries not yet confirmed related to transportation using WFP's fleet of trucks. Unlike commercial transporters where delivery confirmation is tied to invoice payment, the WFP fleet's delivery confirmation process is not as effective.

117. In addition, the insufficient capacity (number and skills) of fleet management staff and manual fleet documentation contributed to commodity accounting weaknesses. This resulted in an increased lead time between dispatch and delivery confirmation for food commodities, during which issues with the dispatched quantities were not identified and resolved by the country office.

118. Further, requirements for spare parts increased as the country office built up and diversified its fleet of trucks, and stocks of spare parts were low. Inventory management practices were not well established, resulting in inefficiencies and raising the risk of fraud. In 2022, headquarters supported the country office in reconciling discrepancies in stocks. In Adama, the audit sampled spare part inventory and identified unreconciled differences between the physical inventory and system records in 60 percent of the sample reviewed.



Underlying causes: Insufficient skills and number of staff for fleet management; absence of proper procedures and tools for fleet management; and evolving operational context characterised by conflict, economic downturn, and government regulations.

Agreed actions (High priority)

The country office will ensure adequate and skilled staffing capacity to develop standard operating procedures, tools and controls for fleet operations and monitor related key performance indicators.

Timeline for implementation

31 December 2023.

Donor relationship management

119. Contributions to the country office reached USD 1.2 billion during the audit period, 60 percent of which was from its main donor.

120. The audit reviewed on a sample basis the agreement formulation process, including how specific conditions are negotiated with donors in coordination with headquarters; compliance with terms and conditions – particularly for geographic earmarking and the implementation period; and the reporting on activities and spend.

121. The country office established a tracker to help with meeting increasing donor requirements, including on reporting, geographic earmarking, and grant duration. At the corporate level, a cross-functional working group was reviewing the process from agreement negotiation to approval and strengthening the monitoring of contractual obligations.

Observation 8: Donor conditions and non-standard reporting

122. The grant formulation and negotiation process were mainly managed at the corporate level. In some cases, late involvement of the country office led to agreeing to terms and conditions that were difficult to implement given the operational context, such as short grant duration with geographical earmarking.

123. Without a defined process to review and agree on non-standard reporting conditions with headquarters as required by corporate guidelines, the previous country office's management had accepted in October 2019 with one donor reporting conditions, which corporate systems could not support. The country office finance team at the time had also incorrectly programmed the financial contribution in WFP systems.¹⁷

124. Subsequently, the country office manually attempted to link financial results to project results resulting in several errors in donor reports submitted. The inability of the country office to deliver credible financial reports at output and outcome levels has severely impacted the relationship and trust with the donor since 2021. During the audit fieldwork, the audit team met with the donor who reiterated their concerns about the validity and accuracy of reports submitted by the country office. At that point, the country office had already coordinated with relevant units in headquarters to remediate the reporting issues and other concerns of that donor.

125. Whereas the audit noted that corporate platforms and local tools were capturing some donor conditions, this information was found to be incomplete or not always updated to reflect changes in agreements. There were also inconsistencies in the information captured across different systems. Overall, corporate platforms did not provide sufficient visibility on all donor terms and conditions, limiting the ability to fully monitor compliance therewith.

¹⁷ The financial programming for the contribution was subsequently adjusted and corrected in late 2021.



126. This led to instances of the country office not fulfilling terms and conditions, such as reporting late, distribution of commodities outside of earmarked locations, and distribution of about 21,138 metric tons of food aid, representing 3 percent of total in-kind assistance, after the implementation period.

127. The internal audit of WFP's contributions management¹⁸ had identified some of these issues including the inability of WFP corporate systems to capture and demonstrate results on resilience activities. A corporate working group was established in May 2022 to review processes for decision-making on donor conditions, and to strengthen monitoring of and ensure compliance with contractual obligations. Work is still in progress.

Underlying causes: Increasing donor requirements; absence of corporate guidance on grant formulation and negotiation process; corporate tools do not enable a proactive and comprehensive tracking of donor conditions; limited data quality checks on accuracy and completeness of information in corporate tools; and limited ownership beyond the partnerships unit for ensuring adherence with donor-specific requirements.

Agreed actions (Medium priority)

The country office will assign roles and responsibilities for monitoring donor visibility and information-sharing across units on donors' conditions.

Timeline for implementation

30 September 2023.

Service provision

128. Over the audit period, the country office provided on-demand food procurement services to the Government for USD 200 million, and other on-demand logistics services (including fuel provision) to over 50 partners in the country. These comprised non-governmental organizations, other United Nations entities and the Government.

129. Government and non-governmental partners as well as United Nations organizations interviewed provided positive feedback on the services provided by the country office as it leveraged a strong supply chain presence and experience in the country. The country office has the largest portfolio of on-demand services in WFP and as such is helping to shape some of the corporate standards.

130. The audit verified whether significant risks were reasonably mitigated, including WFP's liability in case of losses, the application of the full cost recovery principle, exposure to counterparty risk, and alignment of activities with the CSP objectives.

Observation 9: Provision of logistics services

131. The portfolio of logistics services carried a combination of operational, financial, and reputational risks either not mitigated or managed on an ad-hoc basis.

132. The country office looked to meet the full cost recovery principle in providing services to partners. As the budget for these activities was not integrated with other CSP activities, the country office had in some instances recovered costs twice. Similarly, the procurement and transport of wheat for the Government may have created a deficit subsidized by other activities.

133. Whereas supply chain costs for CSP activities are regularly monitored, budget monitoring is not defined corporately for service provision activities. This increased the risk at the country office level of not timely identifying a deficit that may be funded by other donors, or a surplus that should be reimbursed to partners.

134. Several agreements did not incorporate key clauses to limit WFP's liability in case of losses and did not clarify the scope of services provided. Headquarter units are in process of reviewing and updating the service level agreement templates.

¹⁸ Internal audit of WFP's Contributions Management, 2020, [link](#).



Underlying causes: High risk appetite; incomplete corporate framework for service provision, including for budgeting and risk management; limited cost accounting and guidance to apply full cost recovery; and some agreements signed before issuance of the latest corporate guidance.

Agreed actions (Medium priority)

1. The Service Integration and Bilateral Service Provision Unit will:
 - (i) Define risk management and management oversight mechanisms for the provision activities of supply chain services.
 - (ii) Develop guidance and tools for integrating the budget of service provision with food distribution activities.
 - (iii) In consultation with WFP's legal department, review the country office service provision agreements to incorporate all required clauses.
2. The country office will reconcile budget with actual costs of providing services to the government on a regular basis.

Timeline for implementation

1. 31 March 2024.
2. 31 December 2023.



Annex A – Agreed action plan

The following table shows the categorization, ownership and due date agreed with the audit client for all observations raised during the audit. This data is used for macro analysis of audit findings and monitoring the implementation of agreed actions.

The agreed action plan is primarily at the country office level, with one action at the corporate level.

#	Observation (number/title)	Area	Owner	Priority	Timeline for implementation
1	Absence of controls in assessments, targeting and identity verification	Programme design and implementation – beneficiary management	Country Office	High	31 December 2023
2	Government capacity challenges regarding distributions	Programme design and implementation – distribution	Country Office	High	31 March 2024
3	Unrealistic country portfolio budget assumptions	Programme design and implementation – budget	Country Office	Medium	30 September 2023
4	Limited monitoring coverage and escalation of food diversion incidents	Monitoring	Country Office	High	1. 31 December 2023 2. 31 December 2023
5	Insufficient review of supply chain budget and costs	Supply chain	Country Office	Medium	1. 30 September 2023 2. 31 December 2023
6	Unplanned procurement and contract adjustments	Supply chain – procurement	Country Office	Medium	1. 31 December 2023 2. 30 September 2023
7	Management and commodity accounting issues with WFP's fleet	Supply chain – logistics	Country Office	High	31 December 2023
8	Donor conditions and non-standard reporting	Donor relationship management	Country Office	Medium	30 September 2023
9	Provision of logistics services	Service provision	Service Integration and Bilateral Service Provision Unit	Medium	1. 31 March 2024 2. 31 December 2023



Annex B – Definitions of audit terms: ratings and priority

1 Rating system

The internal audit services of UNDP, UNFPA, UNOPS and WFP adopted harmonized audit rating definitions, as described below.

Table B.1: Rating system

Rating	Definition
Effective/ satisfactory	The assessed governance arrangements, risk management and controls were adequately established and functioning well, to provide reasonable assurance that issues identified by the audit were unlikely to affect the achievement of the objectives of the audited entity/area.
Some improvement needed	The assessed governance arrangements, risk management and controls were generally established and functioning well but needed improvement to provide reasonable assurance that the objective of the audited entity/area should be achieved. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area. Management action is recommended to ensure that identified risks are adequately mitigated.
Major improvement needed	The assessed governance arrangements, risk management and controls were generally established and functioning, but needed major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could negatively affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.
Ineffective/ unsatisfactory	The assessed governance arrangements, risk management and controls were not adequately established and not functioning well to provide reasonable assurance that the objectives of the audited entity/area should be achieved. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area. Urgent management action is required to ensure that the identified risks are adequately mitigated.

2 Priority of agreed actions

Audit observations are categorized according to the priority of agreed actions, which serve as a guide to management in addressing the issues in a timely manner. The following categories of priorities are used.

Table B.2: Priority of agreed actions

High	Prompt action is required to ensure that WFP is not exposed to high/pervasive risks; failure to take action could result in critical or major consequences for the organization or for the audited entity.
Medium	Action is required to ensure that WFP is not exposed to significant risks; failure to take action could result in adverse consequences for the audited entity.
Low	Action is recommended and should result in more effective governance arrangements, risk management or controls, including better value for money.

Low-priority recommendations, if any, are dealt with by the audit team directly with management. Therefore, low-priority actions are not included in this report.

Typically audit observations can be viewed on two levels: (a) observations that are specific to an office, unit or division; and (b) observations that may relate to a broader policy, process or corporate decision and may have a broad impact.¹⁹

¹⁹ An audit observation of high risk to the audited entity may be of low risk to WFP as a whole; conversely, an observation of critical importance to WFP may have a low impact on a specific entity but have a high impact globally.



3 Monitoring the implementation of agreed actions

The Office of Internal Audit tracks all medium-risk and high-risk observations. Implementation of agreed actions is verified through the corporate system for the monitoring of the implementation of agreed actions. The purpose of this monitoring system is to ensure that management actions are effectively implemented within the agreed timeframe to manage and mitigate the associated risks identified, thereby contributing to the improvement of WFP's operations.

The Office of Internal Audit monitors agreed actions from the date of issuance of the report, with regular reporting to senior management, the Independent Oversight Advisory Committee and the Executive Board. Should action not be initiated within a reasonable timeframe, and in line with the due date as indicated by management, the Office of Internal Audit will issue a memorandum to management informing them of the unmitigated risk due to the absence of management action after review. The overdue management action will then be closed in the audit database and such closure confirmed to the entity in charge of the oversight.

When using this option, the Office of Internal Audit continues to ensure that the office in charge of the supervision of the unit which owns the actions is informed. Transparency on accepting the risk is essential and the Enterprise Risk Management Division is copied on such communication, with the right to comment and escalate should they consider the risk accepted is outside acceptable corporate levels. The Office of Internal Audit informs senior management, the Independent Oversight Advisory Committee and the Executive Board of actions closed without mitigating the risk on a regular basis.



Annex C – Acronyms and Terms

COMET	Country Office tool for Managing (programme operations) Effectively
CSP	Country strategic plan
DRMC	Disaster Risk Management Commission
HRP	Humanitarian Response Plan
JEOP	Joint Emergency Operation Program
Kebele	Village
LESS	Logistics Execution Support System
SCOHS	Service Integration and Bilateral Service Provision Unit
UN	United Nations
UN-OCHA	United Nations Office for Coordination of Humanitarian Affairs
USAID	United States Agency for International Development
USD	United States dollar
WFP	World Food Programme
Woreda	District

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